

**FINANCIAL REPORT
CITY OF HARBOR SPRINGS
BUILDING AUTHORITY
December 31, 2004**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

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DEPT. OF TREASURY

JUN 30 2005

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LOCAL AUDIT & FINANCE DIV.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name City of Harbor Spring Building Authority	County Emmet
Audit Date 12/31/04	Opinion Date 6/21/04	Date Accountant Report Submitted to State: 6/29/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

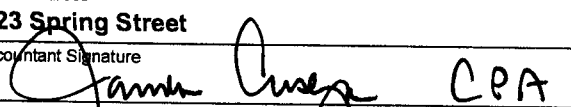
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) Hill, Schroderus & Co., LLP			
Street Address 923 Spring Street		City Petoskey	State MI
Accountant Signature 		ZIP Code 49770	Date 6/28/05

**CITY OF HARBOR SPRINGS BUILDING AUTHORITY
FINANCIAL REPORT
December 31, 2004**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	i-ii
Basic Financial Statements:	
Statement of Net Assets	2
Statement of Revenues, Expenses and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5-6



Hill • Schroderus & Co., LLP

Certified Public Accountants & Consultants

June 21, 2005

Independent Auditors' Report

Board of Commissioners
City of Harbor Springs Building Authority
Harbor Springs, Michigan

We have audited the financial statements of the City of Harbor Springs Building Authority, as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Building Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Harbor Springs Building Authority as of December 31, 2004 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The City of Harbor Springs Building Authority has implemented a new financial reporting model, as required by the provision of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of January 1, 2004.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hill, Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

Management's Discussion and Analysis

Overview of the Basic Financial Statements

The basic financial statements for the City of Harbor Springs Building Authority (the 'Authority') include a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows. These are all reported using the accrual basis of accounting. As this is the first year of implementation of GASB Statement No. 34, prior year numbers are not presented within the Management's Discussion and Analysis. A comparative analysis will be provided in future years when prior year information is more readily available.

Financial Statements

The Statement of Net Assets presents the Authority's assets and liabilities, with the difference reported as *net assets*.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the most recent fiscal year.

The Statement of Cash Flows presents cash flows from operating, financing and investing activities. Additionally, non-cash transactions that have an effect on the Authority's financial position are also presented.

Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

The table below summarizes the Authority's net assets as of June 30, 2004:

CITY OF HARBOR SPRINGS BUILDING AUTHORITY December 31, 2004

Assets	
Current	\$ 25,000
Other	<u>1,050,000</u>
Total assets	<u>1,075,000</u>
Liabilities	
Current portion of bonds payable	25,000
Bonds payable net of current portion	<u>1,050,000</u>
Total liabilities	<u>1,075,000</u>
Net Assets	
Net assets	<u><u>\$ -</u></u>

At the end of the fiscal year, the Authority is reporting a zero balance for net assets.

The results for the Authority as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets, which is summarized below:

CITY OF HARBOR SPRINGS BUILDING AUTHORITY
Year Ended December 31, 2004

Revenues	\$ 92,181
Expenses	<u>98,427</u>
Excess (deficiency) of revenues over expenses	(6,246)
Net assets-beginning of year	<u>6,246</u>
Net assets-end of year	<u><u>\$ -</u></u>

As shown above, the current year deficiency was \$6,246. The Authority relies on loan payments from the City to make the required bond payments.

During fiscal year 2004, the City issued \$560,000 in general obligation bonds in order to advance refund the outstanding 1994 Series bonds. The refunding bonds were not issued through the Authority. As a result of the transaction, the 1994 bonds are considered to be defeased and they were removed from the Authority's financial statements. As noted above, no new bonds were issued through the Authority.

Economic Factors

The City of Harbor Springs Building Authority was incorporated for the purpose of constructing, owning and leasing city facilities. It was also incorporated to finance these activities and to lend money to the city for similar purposes. Currently, the Authority has one loan outstanding with the City of Harbor Springs related to the Series 2002 Bonds as explained in the notes to the financial statements. The City has been making its loan payments on a timely basis. The expectation is that these timely payments will continue to be made and the related bonds will be retired as intended.

CITY OF HARBOR SPRINGS BUILDING AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2004

Assets

Current assets:	
Current portion of lease contract receivable - net of interest	\$ 25,000
Lease contract receivable (net of current portion)	<u>1,050,000</u>
Total assets	<u><u>\$ 1,075,000</u></u>

Liabilities and Net Assets

Current liabilities:	
Current portion of bonds payable	\$ 25,000
Bonds payable (net of current portion)	<u>1,050,000</u>
Total liabilities	1,075,000
Net assets	<u>-</u>
Total liabilities and net assets	<u><u>\$ 1,075,000</u></u>

CITY OF HARBOR SPRINGS BUILDING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended December 31, 2004

Revenues:	
Lease contract revenue	<u>\$ 92,181</u>
Expenses:	
Bond interest and fiscal charges	92,181
Bond discount amortization from refunding	<u>6,246</u>
Total expenses	<u>98,427</u>
Excess (deficiency) of revenues over expenses	(6,246)
Net assets, beginning	<u>6,246</u>
Net assets, ending	<u><u>\$ -</u></u>

CITY OF HARBOR SPRINGS BUILDING AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended December 31, 2004

Cash flows from operating, capital financing, and investing activities:
There were no cash operating, capital financing, or investing activities
during the reported period

Non-cash operating and financing activities:

The Authority recognizes lease revenue due from the City and the related bond,
interest and fiscal charges as these charges are paid directly by the City on the
Authority's behalf.

Lease contract receivable	\$ 625,000
Lease contract revenue	92,181
Bond principal	(625,000)
Bond interest and fiscal charges	(92,181)
Bond discount amortization from refunding	(6,246)
	<hr/>
Total non-cash operating and financing activities	<u>\$ (6,246)</u>

CITY OF HARBOR SPRINGS BUILDING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Harbor Springs Building Authority pertain to the financial activities of the Authority as a separate entity. These activities have also been consolidated with the financial statements of the City of Harbor Springs, Michigan. The Authority is covered by various insurance policies maintained by the City of Harbor Springs.

The Building Authority has lease contracts with the City of Harbor Springs, Michigan covering the construction of an electric substation, public works building and city hall, and police department renovations by the Authority. Since the contracts represent financing transactions, the Authority has recorded the lease contracts as receivables in lieu of recording the properties as fixed assets.

The Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Effective January 1, 2004, the Authority implemented the provisions of GASB No. 34. The most significant change was the addition of the management's discussion and analysis.

The financial statements of the Authority have been prepared on the accrual basis of accounting except for the recognition of interest income and expense as explained below.

Accounting policies for specific items follow:

Outstanding bonds not defeased are recorded as a liability.

Interest income associated with the investments is recorded when received. Interest expense associated with the bonds is recorded when cash is disbursed. Accruing interest expense would be offset by accrued revenue from the City resulting in essentially the same position and results of operations.

NOTE 2: LEASE CONTRACTS AND BONDS

A. Public Works Building

The Building Authority has a lease contract with the City of Harbor Springs, Michigan, covering the public works building. General obligation bonds totaling \$975,000 were issued in 1994 by the Building Authority and all of the proceeds have been used to acquire and construct the public works building.

Rental receipts under the lease agreement, which were pledged as collateral for the bonds, were set at the amount necessary to meet principal and interest payments due on the bonds.

On December 22, 2004, the City issued \$560,000 in General Obligation Bonds. The proceeds of these bonds were used to advance refund \$525,000 of outstanding 1994 Series bonds. As a result, the 1994 Series bonds are considered to be defeased and the liability for those bonds has been removed from the Authority's statement of net assets. Ownership of the related facilities have been turned over to the City as the 1994 bonds are now considered retired.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 2: LEASE CONTRACTS AND BONDS – CONTINUED

B. City Hall/Police Department

The Building Authority has a lease contract with the City of Harbor Springs, Michigan, covering the city hall and police department buildings. General obligation bonds totaling \$1,125,000 were issued in 2002 by the Building Authority and all of the proceeds have been used to renovate the city hall and police department buildings.

Rental receipts under the lease agreement, which are pledged as collateral for the bonds, have been set at the amount necessary to meet principal and interest payments due on the bonds. Upon retirement of the bonds, which are scheduled for redemption through 2022, ownership of the related facilities will be turned over to the City.

Details of the ordinances and related assets and liabilities are as follows:

	City Hall/Police Department
Lease contract receivable	\$ 1,673,361
Interest included	(598,361)
Net receivable on balance sheet	<u>\$ 1,075,000</u>
Bonds outstanding	<u>\$ 1,075,000</u>
Interest rates	<u>4.0 to 6.0%</u>

The annual debt service requirements to maturity for the bonds outstanding as of December 31, 2004 are as follows:

December 31	City Hall/Police Principal	Department Interest
2005	\$ 25,000	\$ 55,968
2006	25,000	54,968
2007	50,000	53,968
2008	50,000	50,968
2009	50,000	47,966
2010-2014	275,000	196,715
2015-2019	375,000	114,746
2020-2022	225,000	23,062
Total	<u>\$ 1,075,000</u>	<u>\$ 598,361</u>